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DANCING DOWN THE WIND

By Harry Serwer

The Administration's highly uneconomic economy is reaping its well-deserved whirlwind.

The spectre of rampant inflation is giving butterflies to the stomach of business and finance. That is why trust funds, insurance companies, savings institutions and mutual investment groups are clamoring for still more legal okays to shift from bonds to common stock.

On the other hand, the spectre of deflation is giving butterflies to the Administration's stomach. Mention the very word and the whole bureaucratic gang dives for the scuppers. Perhaps that was why Truman and his Edgar Bergen in the State Department gave MacArthur the sack.

The nerve of demanding that the Korean fracas be wound up just when the big wad of war dollars is about to get into circulation! Did MacArthur want to bring on a panic? Yes, a panic -- he couldn't bring on a depression because that is what we already have in this country. This may sound brash when a minimum of $50 billion a year is being dumped into the war trough. It doesn't make sense; but what makes sense in a manipulated economy?

II

If you have read the earning reports of large corporations for the First 1951 Quarter, any talk about a depression sounds ridiculous: in the main they were well ahead of the First 1950 Quarter (but that was before the government took its chunk). However, a substantial portion of the manufactured goods represented by these earning reports has since backed up badly in retail stores; and the wholesalers are suffering from the inventory troubles in the Second Quarter.

This is what happened. Both the retailer and the consumer had been twice city-slickered by the threat of Korean-induced shortages. Retailers bought everything in sight during July 1950. Mrs. Doakes, who has one infant -- in training pants -- rushed out to buy a gross of diapers, probably for the infant's infant, due to be born in 1975. In November there was another flare-up, and that also went the way of all flash.

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Mr. Retailer looked at his bulging shelves and ruefully vowed he'd never again fall for the cry of shortage. But never is a long, long time. Store business started off with a bang in January and carried right through February. In many sections of the country a number of departments hit their all-time high in dollar volume. But it wasn't all gravy: the year had opened with special promotions; and in many cases, retail prices were lower than replaceable cost. In nearly all cases, the gross profit was under the historical markup. This wasn't healthy since the cost of doing retail business had increased tremendously. But, the aim was to get rid of inventory, regardless of reason, and they were doing that with a vengeance.

Pretty soon the store owner, noting the emptying shelves, began yelling, "Where's everybody -- where are the buyers? Send them to the market and see that they buy plenty -- because this is it! This is the permanent shortage we've been waiting for." And, with the exception of fashion merchandise, they bought their heads off, pleading for early deliveries. The retailer didn't know that the only thing the wholesaler was short of was another warehouse to store overproduction.

The wholesalers also felt, This Is It! Many of them parcelled out shipments on the hunch that prices would soon skyrocket. Practically all of them gambled on primary and semi-processed inventory in order to keep production in high gear. And as these manufacturers produced more they bought more . . . and more!

Well, like Shakespeare said, "Beware the ides of March"; and around the ides, the consumer, out of a pristine sky, played hard to get. Nobody knows why. Just as nobody knew why the consumer had gone on a buying binge in January and February. Unfortunately, as consumer buying tapered off, shipments to retailers burgeoned. Merchandise ordered for January and February delivery suddenly showed up with a rush in the second half of March. Merchandise due in April, May and June also came into the store in March, the bills dated ahead. Here was evidence that the wholesale fields had turned bearish: they wanted merchandise on the books as accounts receivable not inventory. This is purely deflationary.

III

And so on March 31, both the retailer and the wholesaler found themselves with the largest dollar inventory in their careers. Toward the end of March the writer made a trip to the coast and spoke with many top executives in both wholesale and retail fields. They volunteered the information -- confidentially of course -- that sales were nosediving and inventories were hitting the roof. In the first half of April the retail situation was frightening.

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You could have shot cannon balls down the aisles of many stores without hitting a customer; and these were the top stores in their respective trading zones. Then came an intensive drive for business. Since special promotions seemed to have been the reason for the January buying splurge (it certainly was not, as events proved), then special promotions ought to do the trick in April. Retailers took large space in newspapers and generous time on radio and television. Some of the ads looked like Barnum & Bailey's full pages at the so-called Dawn of the Century. The lyrical ladies of the radio practically outdid themselves to the point of onomatopoeia. But no soap; the consumers barely dribbled in.

What happened? Who knows? Radios and television sets suddenly became a dime a dozen -- you could make your own deal if you had the cash to shell out. Some retail salesmen were whispering into the consumer's ear, "Get yourself a wrecked refrigerator from a junkie for $5 or $10 and we'll allow you a $60 trade-in on a new one." That was one way of getting around "fair-traded" prices. The trade-in allowance depended on the selling price of the new machine; but whatever it was, it averaged about 25 per cent -- quite a cut when you consider that the retailer has approximately a 28 per cent overhead in his major electrical appliance department against a maximum 35 per cent gross markup.

Around April 1, the television manufacturers announced "new lines" of lower price sets. The excuse given was that a "low-income market was being ignored". This was the bunk. The "new lines" were the old sets piling up in warehouses and on which the prices had been slashed. The hush-hush was an attempt to prevent panic among retailers.

IV

Now, let's see how all this squares up with the figures of the Federal Reserve. The latter released a report dated May 3, captioned, "Department Store Sales And Stocks by Departmental Classifications". The figures were for March 1951 in comparison with March 1950. The grand total for all departments -- the main store and basement -- showed a dollar volume increase of 7 per cent, but an inventory increase of 32 per cent (an adverse ratio of nearly 5 to 1). Since March 1950 was a disappointing month (there was no Korean "incident" to open the cornucopia), and since prices were at least 15 per cent lower than they were in March 1951, it is obvious that a dollar volume increase of 7 per cent was really a unit sale <u>decrease</u> of at least 7 per cent.

The fact that Easter came this March makes the figures very disappointing. Instead of shooting apparel sales 'way up, which always bol-

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sters over-all store figures, the Easter business opened so sluggishly that many stores dumped their fashion merchandise during Palm Sunday week at prices which varied from a little above net cost to "far below cost". That is deflationary.

In the aforementioned Federal Reserve report, television sets are listed as having lost 18 per cent of March 1950 volume, but the inventories increased by 446 per cent (an adverse ratio of 23 to 1). Radios and phonographs lost 67 per cent of their volume, but the inventories were up 24 per cent. Refrigerator volume increased 23 per cent but inventories were up 78 per cent. All major household appliances were up 1 per cent in volume but inventory increased 65 per cent. Note that the above-mentioned items are made of critical materials in a war economy, and should have been under-produced by now.

Why was there so much overproduction and overbuying? Because our businessmen had little or no faith in the dollar at the time. As bad as things are today, if business could borrow the money to hold on to all of its inventory, it would do so. As a matter of fact, it is desperately trying to hold on. The writer has read hundreds of financial statements in the last three months, and in nearly every instance, the inventory is larger than the combined capital and surplus. More and more business people are being factored -- which means they sell their accounts receivable for cash on the day of shipment. Despite this extra liquidity, they are still having trouble holding on.

How long this depression will last is anybody's guess. But one of these days, the Washington-induced war economy will get into full swing, and the favorite market place will again retire under the table. Until then, the young brain-trust hopefuls, cluttering up the OPS, will continue to wander around aimlessly until somebody finds them a papa who will tell them what to do and where to sit.

Until then the manufacturers will be begging the Administration to trade the ceiling price for a half-way decent floor price. Until then the retailer will be begging wholesalers for lower prices on distress merchandise so he can average down and run another "Below Cost" promotion. Until then bankers will be nagging businessmen to pay off their loans -- "because the Federal Reserve (or the Treasury, or Truman) wants to eliminate the dangers of inflation". (Sic!) Until then many wholesalers, jobbers and manufacturers of consumer goods will demand -- and receive -- more time to pay their bills; a crackdown at this particular time might result in wholesale liquidations.

And after that? Verily, the idiot will dance down the wind.

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Not Merely Gossip *A Supplement to* Human Events Vol. VIII, No. 22

By Frank C. Hanighen May 30, 1951

MACARTHUR: The "Little Pentagon" in the Waldorf and the big Pentagon on the Potomac have been different, among many other things, in one vital respect. MacArthur has remained in virtual isolation since he settled down in residence in the New York hostelry. On the other hand, it is a fair guess that such figures as Marshall, Bradley, Collins, et al have not been exactly out of touch with the politicians who run the Administration, nor the friends of that Administration who propagate its views in the press.

The country has not been aware of this situation. Yet, among those in the press and public life who are sympathetic to the General's point of view, his isolation has been a subject of much private wonderment and discussion. The fact is that MacArthur has seen literally no one since he finished his testimony on Capitol Hill. Those who sought an off-the-record interview or conversation were turned aside by General Courtney Whitney, the General's aide. And the latter himself has become the subject of no little discussion.

We do not profess to know the reasons why this barrier was raised. But we can report that it has now been lowered. In the past week, the General has been meeting with various persons in public life and journalism who wish him well and would like to hear his views. It is now expected that before long his opinions and views will receive, indirectly, a fuller airing than they have been given in previous weeks.

Those who have seen him already report clarification of some points which have puzzled observers. For instance, a correction should now be made of one misinterpretation widely spread through the press at the time of the General's testimony on Capitol Hill. Many papers reported flatly that MacArthur had rejected the military strategy advocated by Hoover and Taft last winter, the strategy labelled "sea-air" strategy. (At the time, this column suggested that some of our colleagues were the victims of some rather equivocal wording in the MacArthur remarks on this matter.)

Now that the Little Pentagon doors have been opened a little, it is reported that MacArthur does not reject the Hoover-Taft thesis; but, indeed, shares the same misgivings of those statesmen about the current land warfare strategy which has sent Eisenhower to Europe.

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PRESIDENTIAL SWEEPSTAKES: Eisenhower's popularity has held up reasonably well in the public opinion polls -- and in the conversations during the recent meetings of the national committees of the two parties, both Democratic and Republican. But observers believe the enthusiasm for the General is a rather thin film on a tide which could ebb in the next year.

For instance, at the Tulsa GOP gathering two weeks ago, one thesis was propounded, as follows: Supposing MacArthur would appear at the GOP convention next year with strong popular support. And supposing he would arise and take himself out of the whole political picture by affirming that Generals should not be Presidents. He would thereby, it is argued, take Eisenhower out of the political picture, either for Democrats or Republicans. In the private discussions at Tulsa, this thesis was a painful one for Eisenhower partisans to handle.

Meanwhile, it is rumored that there are under way several journalistic projects of a nature rather critical of the European Commander. These projects, it is said, are designed to cut the Eisenhower "myth" down to size -- with no little attention paid to Eisenhower's record on Germany during the days when the Morgenthau Plan held sway. Additionally, we have just noted a rather severe criticism of the European Commander in a pamphlet published by an organization called the Partisan Republicans of California.

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ON THE RED FRONT: Members of Congress have been inspecting, with the aid of a translator, a piece of State Department propaganda published in Russian, and used for U.S. propaganda distribution in Eastern Europe. They are amazed to find in it an article attacking "American imperialism" in Puerto Rico; and praising Rex Tugwell's socialistic rule of that island in the Thirties. Fireworks are expected.

---- There is increasing talk of the necessity of psychological warfare. The Acheson broadcast to the Soviet Republic of Georgia may establish a precedent. But the practical emphasis is on circulation of propaganda leaflets in Eastern Europe -- by the underground route, by balloons or by dropping them from planes.

The Committee for a free Europe and similar organizations, backed by private foundations' funds, are said to be doing the best work in this field. The Committee has utilized one effective trick -- enclosing leaflets with consumer goods made in West Germany, and merchandised in the Eastern zone and Poland.

---- The McCarran Committee on Internal Security has not yet fired off its first round of open hearings, but it has been busy gathering evidence in secret sessions. It is reported to be waiting to release its work until the current testimony on the MacArthur controversy comes to an end.

Meanwhile, the House Un-American Activities Committee, obviously fearing rivalry from the McCarran organization, is showing more signs of life. It is an open secret that this House group is controlled by the Department of Justice and sedulously avoids producing evidence likely to embarrass the Administration; in short, no more danger of "pumpkin papers". But the Republican minority on the Committee has begun to assert itself. With Representative Potter, legless war veteran, as a leader, it introduced sharper questioning of some Hollywood screen stars who recently appeared before its bar.

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PEACE AND THE STATE DEPARTMENT: Those who know the score on foreign policy have been discussing a speech given on May 23 by Senator Jenner which has attracted little notice. The Senator from Indiana asserts that we are now being "softened up" in preparation for a "Yalta peace in the Far East", for a settlement which "at first would look like a victory but like Yalta would in reality be a sellout". The best observers agree thoroughly with this claim of Jenner. All the "peace rumors" and the pattern of propaganda support this. (Whether the masters in the Kremlin would accept even such a sellout, is another matter.)

Jenner said: "When will the American people see that we cannot entrust the future peace to the men who have betrayed the past? This Administration double-crossed Poland and Bulgaria. It double-crossed Free China. It double-crossed the Syngman Rhee government in Korea. Its only policy is the double-cross. We cannot have another Yalta. We cannot have 'peace' in Asia if the negotiations are carried on by the men of Yalta."

What does the Indiana Senator recommend? He wants the Congress to cut down the size and appropriations of the swollen and treacherous State Department, to free the Pentagon from State Department domination and to replace Acheson with a Secretary whom we can trust. "We have the power of the purse. The time is now."

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INVENTION BY PROTOCOL: The FCC -- a bureau established originally to police the airwaves -- decided that it was not in the "public interest" to permit the marketing of a certain invention (patented by RCA) in color television. The Supreme Court decided that the decision of the FCC was quite proper.

Years ago a man named Ford marketed a means of individual transportation known as Model A, with something called planetary transmission. There was another form of transmission, the gear shift, which other automobile manufacturers sold. No bureau presumed to determine which of the two was in the "public interest", and no court of law, in those days, would have deemed it proper for the government to in-

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tervene in such matters. Eventually, the market place decided that the gear shift was superior to planetary transmission and said Mr. Ford had to bow to its decision, or go out of business.

We have come a long way from the American tradition of letting social power decide what is in the "public interest".

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POSTAGE RATES: The views of HUMAN EVENTS -- a "vested interest" -- on the postage rate controversy now being aired before the House Post Office Committee, may not be unbiased. Nevertheless, in the interest of truth, we bring up a point not yet mentioned in the hearings and that is: the cost to the Department of the subsidization of carriers through mail contracts. The practice of paying for space or services available for mail, but not used, ought to be questioned. No business concern would think of paying for the availability of a truck, airplane, ship or railroad; it is only common sense to pay for actual services rendered. The P.O. Department, however, is in the habit of contracting for availability.

Thus, when it contracted with the Overland Express to deliver mail from St. Joseph to San Francisco, the terms called for the availability of two coaches each way every week at a price of $300,000 per year; the mail carried brought in a revenue of only $29,000. Now the government is hiring airplane service on a per mile, rather than a per ton, basis, meaning that the companies are paid for every mile flown rather than for the amount of mail carried. How much of the deficit piled up by the Department is due to the extravagance of availability has never been disclosed. Before the mail rates are raised, as the Department wants, this leakage ought to be looked into.

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THE BOOK FRONT: Along the Capitol Hill grapevine, it is reliably reported that a U.S. Senator will shortly release an attack on certain New York newspapers for their record of partiality for fellow-traveller books in their literary supplements. (These weekly book supplements have great influence on the retail book trade, and the nature of the book review can often make or break the sales chances of a new volume.) The Senator, we gather, will point out how favoritism for books praising the Chinese Communists and partiality against those giving a fair picture of the China situation have been characteristics of these book sections. The speech, we hear, will be heavily documented.

If and when it is given, it will follow the trail blazed by Mrs. Irene Kuhn in her now virtually classic exposé in the January American Legion Magazine, entitled "Why You Buy Books That Sell Communism". Mrs. Kuhn's crusade has, it is believed, modified the former prejudiced policies of the New York book reviews for the better. HUMAN EVENTS will try to report developments in this struggle for a free book trade, to award praise for really American books, to point out prejudice against them in reviews and to expose favoritism for fellow-travelling books. We start with the following items.

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THE TIMES AND MISS UTLEY: Two years ago, the Times Book Section ran a highly unfair review of Freda Utley's The High Price of Vengeance, a fearless and long overdue exposé of the Allied occupation regime in Germany. It may well be that the adverse review was one of the causes of the all too modest sale of the book. However, since that time, the tide of protest against this kind of review has been rising -- not the least because of Mrs. Kuhn's widely-read article in the Legion monthly.

A more reasonable policy is seen in the Times review of Miss Utley's new book, The China Story, which describes the blunders of our Far Eastern policy. This review gave a fair and generally favorable report on the new book and so did reviews in other literary organs. This "press" has probably helped the sale of the book,

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which is reported to be doing well. And the Times literary supplement this week runs an interview with Miss Utley, in which the author gave vent to characteristic obiter dicta. She said her favorite quotation was one from Dr. Samuel Johnson: "I know not whether more is to be feared from streets filled with soldiers accustomed to plunder or garrets filled with scribblers accustomed to lie."

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A HATCHET JOB: One of the best pieces of journalism to appear in many a year is Leigh White's Balkan Caesar: Tito vs. Stalin. There have been many books praising Tito either in his Stalinist or anti-Stalinist phases. Here is a good piece of debunking of the Tito myth past and present. White attacks the idea that Tito is really useful to "our side". The author has had wide experience in the Balkans and his volume is, or should be, a telling blow to wishful-thinking about Tito and the State Department policy which backs him.

The White thesis, however, may not have as wide circulation as deserved. Reason: last Sunday's adverse review in the New York Times Book Section. In our opinion, the Times job is most unfair. But to check up, we phoned former Ambassador Constantin Fotitch, who has written articles and book reviews for HUMAN EVENTS on subjects relating to the Balkans and whose opinions have stood the test of time. Fotitch said: "The Times review is not only unfair, it is cheap criticism. Not one positive fact is advanced by the reviewer to support his derogations. Actually, the White book is excellent in tone and treatment and is soundly factual."

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PASADENA PURGE: The treatment in the Times of Leigh White's book (described above) recalls another tendentious reviewing piece by President Conant of Harvard in recent weeks, in the same Book Section. Conant was selected to write about a book by David Hulburd entitled This Happened in Pasadena. Both Conant and Hulburd view with dismay the outcome of a recent civic battle in Pasadena. A prominent exponent of "modern" methods of education, the Superintendent of Schools in Pasadena, came under fire from traditional American elements and finally was fired. The majority of citizens apparently opposed progressive education and infiltration of Left-wing teaching in the schools.

This Leftist tendency "has been reflected in numerous textbooks", says one correspondent, and popular reaction against such teaching was one of the issues in the campaign. Readers of HUMAN EVENTS may recall, in this connection, the exposé of collectivistic propaganda in textbooks used in Yale University, as described in the recent HUMAN EVENTS article, "Harvard Hogs The Headlines", by William F. Buckley, Jr.

To us, the Pasadena purge represents but one incident in a growing upsurge of the people against the domination of what we have often described as the "corrupt intelligentsia". The latter, like a Brahmin caste, has exerted effective control of our political and educational life for many years. This upsurge, this "revolt of the American masses" has been reflected also in the public response to Senator McCarthy's attacks on the State Department, as people came to realize the composition of that Government agency headed by Dean Acheson, certainly one prominent member of the ruling "intelligentsia", and in the popular emotion which reacted against the dismissal of General MacArthur and his subsequent utterances to Congress. In the case of the McCarthy exposures, there followed in Ohio, Maryland and California effective political organization, activity and propaganda which led to signal results at the polls last November. Will the popular surge that followed MacArthur's return be similarly organized and fed to some concrete purpose? Do all these symptoms spell a new renascence of the great American tradition?

Some answers may be found in a study of the Pasadena purge. We recommend literature of the National Council for American Education (1 Maiden Lane, New York) for that story.

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